

# MEMORANDUM

# MCDA

## Request for City Council Committee Action

Date: March 21, 2002

To: Council Member Goodman, Community Development Committee

Refer to: MCDA Board of Commissioners

Prepared by: Jerry LePage, Phone 673-5240

Approved by: Chuck Lutz, Interim MCDA Executive Director \_\_\_\_\_

Subject: Many Rivers East Project: Public Hearing for Final Approval of Up to \$4,250,000 in Tax Exempt Multi-family Housing Development Bonds; Approval of Redevelopment Contract Business Terms and Issuance of a TIF Note

**Previous Directives:** On October 13, 2000, the City Council granted preliminary approval of housing revenue bonds for the Many Rivers project. On July 6, 2001, the MCDA Board approved the allocation of \$634,776 from the Multifamily Rental and Cooperative Housing Program. In separate reports dated March 18 and 21, 2002, staff is also requesting final approval of Redevelopment Plan Modifications and TIF Plan and the sale of land to the American Indian Housing & Community Development Corporation.

**Ward:** Sixth Ward

**Neighborhood Group Notification:** On July 18, 2000, the Ventura Village organization of the Phillips neighborhood approved the AIHCDC development proposal. Ventura Village has been notified in writing of the application for housing revenue bonds.

**Consistency with *Building a City That Works*:** Addresses Goal 2: Ensure that an array of housing choices exist to meet the needs of our current residents and attract new residents to the City.

**Comprehensive Plan Compliance:** Policy 35: Within the constraints imposed by state and federal regulations, the City should continue to sell tax-exempt revenue bonds to provide below market rate and housing development financing.

**Zoning Code Compliance:** The Many Rivers East project was recently zoned to OR-2, which permits this proposed housing development.

**Impact on MCDA Budget:** (Check those that apply)

- ☐ No financial impact
- ☐ Action provides increased revenue for appropriation increase
- ☐ Action requires use of contingency or reserves
- ☒ Other financial impact: Annual bond fees will be collected when the bonds are issued.

**Living Wage / Business Subsidy:** NA

**Job Linkage:** NA

**Affirmative Action Compliance:** Will comply.

**City Council Recommendation:** The Interim Executive Director recommends that the City Council:

1. Adopt the attached City Council Resolution granting final approval of up to \$4,250,000 in tax-exempt Multifamily Housing Development Bonds for the Many Rivers East Housing project. Summary publication of the Resolution is also recommended.

**MCDA Recommendations:** The Interim Executive Director recommends that the Board:

1. Approve the proposed development contract business terms with the developer as contained in this report;
2. Approve the attached MCDA Resolution authorizing the Agency's issuance of a Limited Revenue, Pay-As-You-Go Tax Increment Financing Note to Many Rivers Limited Partnership in a principal amount not to exceed \$480,000; and
3. Authorize the Interim Executive Director or his designee to execute the development contract and related documents on behalf of the Agency based on the terms contained in this report.

## **Background**

Many Rivers is a multi-phased housing project that will be located on East Franklin Avenue on the 1500 block (East Site, Phase 1) and the 1400 block (West Site, Phase 2). The project is called "Niiwa Sibiin", which is translated as "Many Rivers" in the Ojibwe language. The total project consists of two new four-story mixed-use buildings on East Franklin, containing a total of 76 rental apartment units. Fifty apartment units will be constructed in Phase 1 on the East Site, and 26 apartment units will be constructed at a later date on the West Site. A site plan and rendering of the project is attached as Exhibit A.

One of the main objectives of this project is to provide affordable housing urgently needed for families and individuals. Of the 50 rental units projected for Phase 1, thirty-seven (37) or 74% will be affordable to people with incomes at or below 50% of SMSA median income (NOTE: The contribution of State MARIF funds will reduce affordability of 7 of the units to 30% of median). The remaining 13 units (26% of the total) will be market rate. The affordable units will remain affordable for 30 years, which is the term of the housing revenue bonds. The proposed development will consist predominantly of

two and three bedroom rental units (11 1BR, 26 2BR and 13 3BR) to meet the critical need for affordable housing for families with children. All of the 7 MARIF units will be three bedroom units. The one bedroom units will be approximately 597 sq. ft., two bedrooms will be 811 sq. ft., and the three bedrooms will vary from 1,085 to 1,287 sq. ft.

The buildings in both phases will be similar with an L-shaped configuration, and will have an elevator, a two-story indoor playroom, and a community room. The East Building (next to Minneapolis American Indian Center) will have approximately 5,000 square feet of first floor commercial space finished for a day care center and will also have 41 spaces of underground parking and 5 surface spaces. The interior of the site will be fenced to create a courtyard area for residents and a play space for children.

### **Financial Overview**

The developer has applied for and secured financial contributions from a number of local, regional, and State sources (i.e. MHFA, Hennepin County, Empowerment Zone, Met Council Liveable Communities Development Account, and MCDA Multi-Family Rental Fund). The Sources and Uses Statement for the Many Rivers East project (Phase 1) is shown below.

#### **Sources**

Tax Exempt Housing Revenue Bonds	\$ 4,250,000
Syndication Proceeds (4% housing tax credits)	\$ 1,923,325
MCDA Multi-Family Housing Program	\$ 137,421
MCDA Non Profit Administration Fund	\$ 30,000
Metro Council Liveable Communities Program	\$ 200,000
Hennepin County Affordable Housing Program	\$ 142,496
MHFA MARIF Program	\$ 1,045,873*
Minneapolis Empowerment Zone	\$ 200,000
MHFA Urban Indian Housing Program	\$ 500,000*
TOTAL	\$ 8,429,115

#### **Uses**

Construction	\$ 6,125,207
Construction contingency	\$ 188,701
Architectural/Engineering	\$ 330,558
Finance costs & fees	\$ 308,240
Developer fee	\$ 430,000
Legal costs & other fees	\$ 294,214
Reserves	\$ 353,000
Land Assembly Cost	\$ 399,195
TOTAL	\$ 8,429,115

\* Final approval of MHFA Urban Indian Housing and MARIF funds is still pending.

The developer has also requested Tax Increment Financing for this project. Staff has completed an analysis of the developer's Phase 1 proposal and proforma to determine

the appropriate level of TIF assistance. The TIF assistance will be in the form of a pay-as-you-go note for a not-to-exceed amount of \$480,000. This present value amount assumes an annual increment of approximately \$47,000 at an interest rate of 7% over 25 years, which is the maximum term for a redevelopment TIF district. The tax increment will be used by the developer as an additional revenue source for amortizing the City-issued housing revenue bonds. The tax increment will be available to reimburse the developer for the negotiated amount of TIF eligible public expenditures (i.e. demolition, site preparation, and parking construction). In addition, the developer is requesting that the previous commitment of \$634,776 in MCDA Multifamily Rental and Cooperative Housing funds for the entire Many Rivers project be modified to allocate this amount between the two phases. In its proforma, AIHDCDC indicates that \$137,421 will be needed for the First Phase.

### **Housing Revenue Bond Information**

AIHDCDC has submitted an application to the City for up to \$4,250,00 in tax-exempt housing revenue bonds for its first mortgage financing from the MCDA's 2002 Entitlement, and also plans to utilize the automatic 4% low income housing tax credits. This request was approved on a preliminary basis by the City Council on October 13, 2000, for the entire Many Rivers project and is now being presented for final approval of the first phase of the project. The bonds will be in a total aggregate amount not to exceed \$4,250,000. US Bancorp Piper Jaffrey will be the placement agent for the bonds, which will be purchased directly by US Bank. US Bank will provide a tax-exempt rate of interest that will be determined prior to closing and will be related to the 10-year Treasury rate. Pursuant to State statutes, the proposed housing program for Many Rivers East project has been submitted to the Metropolitan Council, and it has determined that the program is consistent with regional plans.

The developer has also applied to the Minnesota Housing Finance Agency for approximately \$1 million for the Many Rivers East project under the Minnesota Affordable Rental Investment Fund (MARIF) program. MARIF is a "pipeline" program and the developer expects MHFA approval shortly.

The unit composition and rent levels for the 4-story, 50-unit Many Rivers East rental apartment building are shown below.

<u>Unit Type</u>	<u># Units</u>	<u>Sq. Ft.</u>	<u>Gross Rents</u>
One Bedroom (affordable)	4	597	\$ 700
One Bedroom	7	597	\$ 756
Two Bedroom (affordable)	23	611	\$ 840
Two Bedroom	3	611	\$ 932
Three Bedroom (affordable)	10	1,085/1,287	\$1,165
Three Bedroom	<u>3</u>	<u>1,085/1,297</u>	<u>\$1,300</u>
Total units	50		

### **Status of 2002 HRB Entitlement**

2002 MCDA Entitlement Authority	\$33,190,000
Many Rivers East	<u>4,250,000</u>
Amount Remaining	\$28,940,000

<b><u>Bond Purchaser</u></b>	<b><u>Bond Counsel</u></b>	<b><u>Council Member Informed</u></b>
US Bank	Gray Plant Mooty & Bennett	Yes, Ward 6.

### **Proposed Redevelopment Contract Terms**

In summary, the proposed business terms for the Many Rivers East Project are as follows:

- The developer will construct 50 units of rental housing on the 1500 block of East Franklin Avenue as Phase 1 of the Many Rivers development. Of the 50 rental units projected for Phase 1, thirty-seven (or 74%) will be affordable to people with incomes at or below 50% of SMSA median income for a 30-year term. The remaining 13 units (26% of the total) will be market rate. The project will also have approximately 5,000 square feet of first floor commercial space.
- Up to \$4,250,000 in tax exempt housing revenue bonds will be allocated from the MCDA's 2002 Entitlement to provide first mortgage financing, which will also allow utilization of 4% low income tax credits.
- The MCDA will provide TIF assistance to the First Phase of this project in the form of a pay-as-you-go note for an amount not-to-exceed \$480,000. This present value amount assumes an annual increment of approximately \$47,000 at an interest rate of 7% over 25 years, which is the maximum term for a redevelopment TIF district.
- The MCDA will provide \$137,421 in MCDA Multifamily Rental and Cooperative Housing Program funds for the First Phase from its previous allocation of \$634,776 for the entire project. This will be a deferred loan at 1% interest for 30 years.
- MCDA will sell its properties at 1500, 1504, 1510 East Franklin and 1913 15<sup>th</sup> Avenue South to AIHCDC for the First Phase. The MCDA parcels consist of about 21,000 sq. ft. and will be sold for their fair reuse value. AIHCDC has purchase agreements on the remaining properties at 1909 and 1911 15<sup>th</sup> Avenue and will be acquiring them directly.

### **Development Finance Committee Report**

The MCDA Development Finance Committee report included four comments on the Many Rivers East project (see Exhibit B). The Committee's comments are listed below along with MCDA staff responses.

- Review the credit worthiness of the limited partnership.

The general partner in the Many Rivers Limited Partnership will be the American Indian Housing and Community Development Corporation. AIHCDC has been in existence since 1991 and is not affiliated with the American Indian Business Development Corporation (AIBDC). AIHCDC is currently negotiating with the National Equity Fund as a possible limited partner and tax credit purchaser for this project. MCDA staff review of AIHCDC's financial statement did not generate any issues, and AIHCDC seems to be in good financial condition.

- Review the operating cash flow projections.

MCDA staff has analyzed the developer's operating cash flow and has concluded that the cost and operating assumptions used are conservative and are consistent with the MCDA's underwriting standards.

- Examine commercial rents to determine if they are too high.

There will be approximately 5,000 square feet of commercial space that will be finished by AIHCDC for lease as a day care center at a projected rent of \$9.50 per square foot, which seems reasonable. The developer's proposed financial terms with US Bank (which is expected to be the purchaser of the housing revenue bonds) also include a requirement that this space be pre-leased to an acceptable day-care operator at a minimum net rental lease rate of \$9.50/square foot.

- Needs a larger replacement reserve.

Based on MCDA underwriting standards, the replacement reserve appears to be adequate. AIHCDC is assuming an annual replacement reserve contribution of \$300/unit for a total of \$15,000 per year. In its original operating cash flows, AIHCDC did not apply a trend/inflation factor to this amount, but this has been corrected. An annual factor of 3% will be used, which is also a requirement of US Bank.

**Project Timetable:** Assuming approval of this action by the full Council and Board on March 22, 2002, AIHCDC hopes to close on the financing for the Many Rivers East project in the spring and to start construction this summer.

**Relating to the City of Minneapolis, Minnesota Multifamily Housing Revenue Bond (Many Rivers Apartments Project) Series 2002; authorizing the issuance thereof pursuant to Minnesota Statutes, Chapter 462C.**

Be It Resolved by the City Council of the City of Minneapolis, Minnesota (the “City”), as follows:

Section 1. Definitions.

1.01. In this Resolution the following terms have the following respective meanings unless the context hereof or use herein clearly requires otherwise:

“Act” means Minnesota Statutes, Chapter 462C, as amended;

“Agreement” means the Loan Agreement to be entered into among the City and the Borrower relating to the Bond;

“Assignment” means the Assignment of Mortgage from the City to the Holder relating to the Bonds;

“Bond” means the Multifamily Housing Revenue Bond (Many Rivers Apartments Project), Series 2002 to be issued by the City pursuant to this resolution in the principal amount of up to \$4,250,000;

“Bond Documents” means the Agreement, the Regulatory Agreement, the Pledge Agreement, the Assignment and the Bond;

“Borrower” means Many Rivers Limited Partnership, a Minnesota limited partnership, its successors and assigns;

“Holder” means U.S. Bank National Association, as holder of the Bond, and its successors and assigns;

“Pledge Agreement” means the Pledge Agreement to be entered into among the City and the Holder relating to the Agreement and the Bond;

“Project” means the multifamily housing development to be financed with the proceeds of the Bond, as further defined in the Agreement;

“Regulatory Agreement” means the Regulatory Agreement to be entered into among the City, the Holder and the Borrower relating to the Project;

“Resolution” means this resolution of the City.

Section 2. Findings.

2.01. It is hereby found and declared that:

(a) based upon representations made to the City by representatives of the Borrower as to the nature of the Project as described in the Agreement, the Project constitutes a project authorized by the Act;

(b) the purpose of the Project is and the effect thereof is to promote the provision of decent, sanitary and safe housing accommodations for low and moderate income persons;

(c) the financing of the Project, the issuance and sale of the Bond, the execution and delivery of the Bond Documents and the performance of all covenants and agreements of the City contained in the Bond Documents and of all other acts and things required under the charter of the City and the Constitution and laws of the State of Minnesota to make the Bond Documents valid and binding obligations of the City in accordance with their terms are authorized by the Act;

(d) it is desirable that the Bond be issued by the City upon the terms set forth herein and that the City pledge its interest in the Agreement and grant a security interest therein to the Holder as security for the payment of the principal of, premium, if any, and interest on the Bond;

(e) the loan payments contained in the Agreement are fixed and are required to be revised from time to time as necessary, so as to produce income and revenue sufficient to provide for prompt payment of the principal of, premium, if any, and interest on the Bond when due, and the Agreement also provides that the Borrower is required to pay all expenses of the operation and maintenance of the Project, including, but not limited to, adequate insurance thereon and all taxes and special assessments levied upon or with respect to the Project and payable during the term of the Agreement;

(f) under the provisions of the Act, the Bond is not to be payable from nor charged upon any funds of the City other than the revenue pledged to the payment thereof; the City is not subject to any liability thereon; no Holder of the Bond shall ever have the right to compel any exercise of the taxing power of the City to pay the Bond or the interest thereon nor to enforce payment thereof against any property of the City; the Bond, premium, if any, and interest thereon shall not constitute an indebtedness of the City within the meaning of any constitutional, charter or statutory limitation and shall not constitute or give rise to a pecuniary liability of the City or a charge against its general credit or taxing powers and shall not constitute a charge, lien or encumbrance, legal or equitable, upon any property of the City other than its interest in the Project;



(g) the execution and delivery of the Bond Documents shall not conflict with or constitute, on the part of the City, a breach of or a default under any existing agreement, indenture, mortgage, lease or other instrument to which the City is subject or is a party or by which it is bound; provided that this finding is made solely for the purpose of estopping the City from denying the validity of the Bond Documents by reason of the existence of any facts contrary to this finding;

(h) no litigation is pending or, to the best knowledge of the members of this City Council, threatened against the City questioning the organization of the City or the right of any officer of the City to hold his or her office or in any manner questioning the right and power of the City to execute and deliver the Bond or otherwise questioning the validity of the Bond or the execution, delivery or validity of the Bond Documents or questioning the pledge of revenues to payment of the Bond or the right of the City to loan the proceeds of the Bond to the Borrower;

(i) all acts and things required under the Constitution and the laws of the State of Minnesota to make the Bond Documents the valid and binding obligations of the City in accordance with their terms shall have been done upon adoption of this Resolution and execution of the Documents; provided that this finding is made solely for the purpose of estopping the City from denying the validity of the Bond Documents by reason of the existence of any facts contrary to this finding; and

(j) the City is duly organized and existing under the Constitution and the laws of the State of Minnesota and is authorized to issue the Bond in accordance with the Act.

### Section 3. Authorization and Sale.

3.01 Authorization. The City is authorized by the Act to issue revenue bonds and loan the proceeds thereof to finance the acquisition, construction and installation of facilities constituting a “multifamily housing development” as defined in the Act, and to make all contracts, execute all instruments and do all things necessary or convenient in the exercise of such authority.

3.02. Approval of Documents. Pursuant to the foregoing, there have been prepared copies of the following documents, all of which are now or shall be placed on file in the office of the Minneapolis Community Development Agency:

- (a) the Agreement;
- (b) the Pledge Agreement;
- (c) the Bond;
- (d) the Regulatory Agreement;
- (e) the Assignment; and
- (f) the Program for a Multifamily Housing Development.

The forms of the documents listed above are approved, with such variations, insertions and additions as are deemed appropriate by the parties and approved by the City.

Section 4. Authorizations.

4.01. Upon the completion of the Bond Documents approved in Section 3.02 hereof and the execution thereof by the other parties thereto, the Mayor (or Deputy Mayor), the City Clerk (or Assistant City Clerk) and the Finance Officer (or Assistant Finance Officer) shall execute the same on behalf of the City, and the foregoing persons and other officers of the City shall execute such other certifications, documents or instruments as bond counsel shall require, subject to the approval of the City, and all certifications, recitals and representations therein shall constitute the certificates, recitals and representations of the City. Execution of any instrument or document by one or more appropriate officers of the City shall constitute and shall be deemed the conclusive evidence of the approval and authorization by the City and the City Council of the instrument or document so executed.

Section 5. The Bond.

5.01. Form and Authorized Amount. The Bond shall be issued substantially in the form described above with such appropriate variations, omissions and insertions as are permitted or required by this Resolution. The terms of the Bond are set forth therein, and such terms, including, but not limited to, provisions as to interest rate, dates and amount of payment of principal and interest and prepayment privileges, are incorporated by reference herein. The initial interest rate on the Bond (until the Tender Date as defined in the Bond) shall not exceed an annual rate of 7.50%.

5.02. Execution. The Bond shall be executed on behalf of the City by the persons described in Section 4.01 hereof. In case any officer whose signature shall appear on the Bond shall cease to be such officer before the delivery thereof, such signature shall, nevertheless, be valid and sufficient for all purposes.

5.03. Delivery and Use of Proceeds. Prior to delivery of the Bond, the documents referred to in Section 3.02 hereof shall be completed and executed in form and substance as approved by the City. The City shall thereupon deliver to the holder the Bond together with a certified copy of this Resolution and such closing certificates as are required by bond counsel.

Section 6. Limitations of the City's Obligations.

6.01. Notwithstanding anything contained in the Bond Documents, the Bond, premium, if any, and interest thereon shall not constitute an indebtedness of the City within the meaning of any constitutional, charter or statutory limitation and shall not constitute or give rise to a pecuniary liability of the City or a charge against its general credit or taxing powers and shall not constitute a charge, lien, or encumbrance, legal or equitable, upon any property of the City other than its interest in the Project, and no Holder of the Bond shall ever have the right to compel any exercise of the taxing power of the City to pay the Bond or the interest thereon or to enforce payment thereof against any property of the City other than its interest in the Project. The

agreement of the City to perform the covenants and other provisions contained in this Resolution or the Bond Documents shall be subject at all times to the availability of revenues furnished by the Borrower sufficient to pay all costs of such performance or the enforcement thereof, and neither the City nor any of its officers, employees or agents shall be subject to any personal or pecuniary liability thereon.

Section 7. City Representative.

7.01. The Finance Officer or Assistant Finance Officer of the City is hereby designated and authorized to act on behalf of the City for purposes of the Bond Documents.

Section 8. Governmental Program.

8.01 The Bond is hereby designated as a "Program Bond" and is determined to be within the "Housing Program" and the "Program," all as defined in Resolution 88R-021 of the City adopted January 29, 1988, and as amended by Resolution 97R-402 of the City adopted December 12, 1997.

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